CONSTRUCTION

EDILIZIACROBATICA

BUY

TARGET PRICE : 26€ (vs 24€) +69%

UPDATE REPORT

REACHING NEW HEIGHTS

The stock had an exceptionally good run in 2021, hitting €20 before falling back to around €15, where it is holding despite the outstanding performances so far this year. Though EDAC is on track to set new records in 2022, investors have turned their focus to 2023 and the end of the Façade Bonus tax incentive, which drove revenue higher in 2021-22. The period of hyper-growth is clearly in the past, but the company has numerous other growth avenues it can pursue (expansion of the branch network, leveraging of a customer base that has grown five-fold, ramp-up of the French subsidiary and energy renovation business EA 110) to keep the growth momentum strong. We have raised our estimates for 2022-24 (especially 2022) and lifted our TP to €26 (from €24). Still a BUY.

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12/12/2022 18:45

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12/13/2022 07:42

2022 on track to be the second exceptional year in a row

With the post-COVID economic recovery turbocharged by the Façade Bonus incentive (60% tax credit) in Italy, EdiliziAcrobatica (EDAC) delivered impressive results in H1 2022 and largely exceeded our estimates, with revenue reaching €67.4m (+85%) and adjusted EBITDA €21.7m (x4.8), for a margin of 32.2%! This performance was even more remarkable in that it came on the heels of a record-setting 2021 (revenue up 95%, adjusted EBITDA margin of 24.3%). Based on the performances and order intake reported for Q3 22, we expect trends to be every bit as robust in H2 22, which is why we have sharply revised our estimates for FY 2022, which now call for revenue of €132.6 (vs. €112m before) and adjusted EBITDA of €34.8m (vs. €22.6m).

New growth drivers to offset the elimination of the Façade Bonus

After remaining in effect for 2 years, Italy's Façade Bonus tax incentive will be phased out at the end of 2022. The period of hyper-growth driven by that scheme is thus behind EDAC, though it has other growth drivers at its disposal for 2023-24 to offset the loss of such a powerful catalyst: (i) expansion of the branch network in Italy, (ii) various sales initiatives to extract more value from a customer base that has grown from 2-3k building management companies before COVID to 10k today, (iii) ramp-up of the French business after three years of restructuring, and (iv) development of the energy renovation activity (EA 110) in Italy. The latter is benefiting from a separate tax incentive that will remain in place through 2025, and the business is off to a very promising start (revenue of €3.7m in the first nine months of 2022 vs. €0.7m in 2021). Bearing all this in mind, we have raised our revenue and EBTIDA assumptions for 2023-24, albeit not by as much as for 2022.

New TP of €26 (vs. €24) – Still a BUY

Upgrades to our estimates, together with a nine-month shift in our DCF model run, more than offset the 3-pt increase in the WACC (12.22% vs. 9.29% before), such that our TP moves up from €24 to €26. Barring a dramatic decline in earnings after 2022 (not what we are expecting given the future growth drivers discussed above), the current valuation multiples look aberrantly low, and we are keeping the stock on a BUY.

.../...

Invest Securities and the issuer have signed an analyst coverage agreement.

in € / share	2022e	2023e	2024e
Adjusted EPS	2,34	2,21	2,58
chg.	*+49%*	*-6%*	*+17%*
estimates chg.	*+38%*	*+15%*	*+20%*

au 31/12	2022e	2023e	2024e
PE	6,6x	7,0x	5,9x
EV/Sales	0,9x	0,8x	0,6x
EV/Adjusted EBITD	3,4x	3,6x	2,6x
EV/Adjusted EBITA	3,5x	3,8x	2,8x
FCF yield*	19,2%	18,0%	24,6%
Div. yield (%)	2,0%	2,3%	2,6%

* After tax op. FCF before WCR

key points	
Closing share price 12/12/2022	15,4
Number of Shares (m)	8,2
Market cap. (€m)	125
Free float (€m)	31
ISIN	IT0005351504
Ticker	EDAC-IT
DJ Sector	Consumer Durables

	1m	3m	Ytd
Absolute perf.	-1,9%	+2,5%	-12,5%
Relative perf.	-3,2%	-4,7%	-4,1%

Source : Factset, Invest Securities estimates

FINANCIAL DATA

Share information	2017	2018	2019	2020	2021	2022e	2023e	2024e
Published EPS (€)	0,19	0,32	0,14	0,22	1,37	2,58	2,04	2,42
Adjusted EPS (€)	**0,27**	**0,38**	**0,09**	**0,23**	**1,57**	**2,34**	**2,21**	**2,58**
Diff. I.S. vs Consensus	*nd*	*+26,6%*	*-36,8%*	*+4,6%*	*+8,6%*	*nd*	*nd*	*nd*
Dividend	0,00	0,00	0,00	0,16	0,30	0,35	0,40	0,50

Valuation ratios	2017	2018	2019	2020	2021	2022e	2023e	2024e
P/E	nd	8,9x	66,7x	23,7x	7,9x	6,6x	7,0x	5,9x
EV/Sales	nd	0,78x	1,28x	1,20x	1,12x	0,89x	0,76x	0,55x
EV/Adjusted EBITDA	nd	4,5x	23,5x	12,8x	4,6x	3,4x	3,6x	2,6x
EV/Adjusted EBITA	nd	5,0x	39,1x	17,9x	5,0x	3,5x	3,8x	2,8x
Op. FCF bef. WCR yield	nd	6,9%	1,5%	4,5%	14,1%	19,2%	18,0%	24,6%
Op. FCF yield	nd	n.s.	n.s.	n.s.	15,1%	12,9%	19,8%	23,3%
Div. yield (%)	nd	n.s.	n.s.	n.s.	1,3%	2,0%	2,3%	2,6%

NB : valuation based on annual average price for past exercise

Entreprise Value (€m)	2017	2018	2019	2020	2021	2022e	2023e	2024e
Share price in €	*nd*	*3,4*	*5,9*	*5,5*	*12,3*	*15,4*	*15,4*	*15,4*
Market cap.	nd	20,7	46,2	44,1	99,0	125,1	125,8	125,8
Net Debt	nd	-2,1	2,7	7,7	-3,6	-10,1	-26,4	-42,1
Minorities	nd	0,1	0,0	0,0	0,0	0,0	0,0	0,0
Provisions/ near-debt	nd	0,7	1,2	1,8	2,6	3,1	3,6	4,1
+/- Adjustments	nd	0,0	0,0	0,0	-0,4	-0,4	-0,4	-0,4
Entreprise Value (EV)	**nd**	**19,4**	**50,0**	**53,6**	**97,6**	**117,7**	**102,6**	**87,3**

Income statement (€m)	2017	2018	2019	2020	2021	2022e	2023e	2024e
Sales	16,3	25,0	39,2	44,7	86,9	132,6	134,3	157,5
chg.	*+30,5%*	*+53,5%*	*+57,0%*	*+13,9%*	*+94,7%*	*+52,5%*	*+1,3%*	*+17,3%*
Adjusted EBITDA	2,8	4,3	2,1	4,2	21,2	34,8	28,9	33,4
adjusted EBITA	**2,3**	**3,9**	**1,3**	**3,0**	**19,6**	**33,4**	**26,8**	**31,1**
chg.	***-15,5%***	***+69,9%***	***-67,2%***	***+133,8%***	***+553,9%***	***+70,8%***	***-19,9%***	***+16,2%***
EBIT	2,3	3,9	1,3	3,0	19,6	33,4	26,8	31,1
Financial result	-0,1	-0,3	-0,3	-0,3	-1,2	-1,0	-1,0	-0,9
Corp. tax	-0,8	-1,1	-0,9	-1,1	-6,0	-10,4	-8,3	-9,8
Minorities+affiliates	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net attributable profit	1,4	2,5	0,1	1,6	12,3	22,0	17,5	20,4
Adjusted net att. profit	**1,5**	**2,5**	**0,7**	**1,9**	**12,6**	**19,0**	**18,1**	**21,1**
chg.	***-20,9%***	***+67,1%***	***-72,1%***	***+170,8%***	***+568,9%***	***+51,1%***	***-5,2%***	***+17,0%***

Cash flow statement (€m)	2017	2018	2019	2020	2021	2022e	2023e	2024e
Adjusted EBITDA	2,8	4,3	2,1	4,2	21,2	34,8	28,9	33,4
Theoretical Tax / Adj. EBITA	-0,7	-1,2	-0,4	-0,9	-5,9	-10,0	-8,0	-9,3
Capex	-0,9	-1,8	-1,0	-0,9	-1,5	-2,2	-2,3	-2,6
Operating FCF bef. WCR	**1,3**	**1,3**	**0,8**	**2,4**	**13,7**	**22,6**	**18,5**	**21,5**
Change in WCR	-2,2	-3,6	-4,1	-7,4	1,0	-7,4	1,8	-1,1
Operating FCF	**-0,9**	**-2,2**	**-3,4**	**-5,0**	**14,8**	**15,2**	**20,3**	**20,4**
Acquisitions/disposals	0,0	0,1	-1,3	0,0	-0,5	0,0	0,0	0,0
Capital increase/decrease	0,0	5,7	0,7	0,4	-0,1	0,4	0,0	0,0
Dividends paid	-0,7	0,0	0,0	-0,8	-1,7	-2,4	-2,9	-3,3
Other adjustments	0,2	0,9	-0,9	0,3	-1,1	-6,6	-1,2	-1,4
Published Cash-Flow	**-1,4**	**4,4**	**-4,8**	**-5,0**	**11,3**	**6,5**	**16,2**	**15,7**

Balance Sheet (€m)	2017	2018	2019	2020	2021	2022e	2023e	2024e
Assets	1,2	2,5	5,1	5,8	5,5	6,0	6,0	6,2
Intangible assets/GW	0,8	1,7	3,9	4,4	3,9	3,4	2,6	1,7
WCR	3,6	6,2	10,2	16,6	15,6	22,9	21,1	22,2
Group equity capital	2,0	9,9	11,5	12,9	22,1	35,9	49,9	66,5
Minority shareholders	0,1	0,1	0,0	0,0	0,0	0,0	0,0	0,0
Provisions	0,4	0,7	1,2	1,8	2,6	3,1	3,6	4,1
Net financial debt	**2,3**	**-2,1**	**2,7**	**7,7**	**-3,6**	**-10,1**	**-26,4**	**-42,1**

Financial ratios	2017	2018	2019	2020	2021	2022e	2023e	2024e
Adj. EBITDA margin	17,2%	17,2%	5,4%	9,3%	24,3%	26,3%	21,5%	21,2%
Adj. EBITA margin	14,1%	15,6%	3,3%	6,7%	22,5%	25,2%	19,9%	19,7%
Adjusted Net Profit/Sales	9,2%	10,0%	1,8%	4,2%	14,5%	14,4%	13,4%	13,4%
ROCE	47,7%	45,0%	8,3%	13,4%	92,8%	115,7%	98,7%	109,7%
ROE adjusted	74,7%	25,1%	6,1%	14,7%	57,0%	53,0%	36,2%	31,8%
Gearing	116,9%	n.s.	23,2%	59,8%	n.s.	n.s.	n.s.	n.s.
ND/EBITDA (in x)	0,8x	-0,5x	1,3x	1,8x	-0,2x	-0,3x	-0,9x	-1,3x

Source : company, Invest Securities Estimates

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SUMMARY

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1 – Background: The EDAC equity story

EdiliziAcrobatica (EDAC) is an atypical company within the building sector since it specializes in façade renovation and maintenance on buildings of more than three floors using only double safety ropes. This technique has many advantages over scaffolding, the other alternative in this space, in terms of costs and turnaround times. The main advantages are:

- Work is completed more quickly and cheaply since there is no need to assemble or disassemble scaffolding or rent that equipment. Scaffolding equipment rental can represent as much as 30% of the cost of a roof renovation job.
- The environmental impact of the work is reduced.
- Rope technicians can access hard-to-reach areas such as crawlspaces and small courtyards.
- There is no risk of burglars using scaffolding to enter a building.
- The visual impact on buildings is limited, a real advantage when work is being done on tourist attractions, hotels or churches, for example.

Source : EDAC

Operating in a competitive market that is dominated by artisans and SMEs, EDAC opted to standardize its processes, notably when it comes to training rope access technicians (staffing being the main bottleneck in the industry), in the aim of becoming an industry leader first in Italy and then in Europe and worldwide. Its organizational structure reflects these ambitions:

- A team of around 70 people at the head office, including, in addition to the usual functions (finance, IT, support, marketing, HR), a large training department that oversees the training of rope technicians. Training is a key area of focus for EDAC, allowing it to reduce the risk of accidents (none reported in recent years) and to ensure that it has enough technicians available to keep up with demand. Contrary to other firms in the industry, EDAC recruits professionals from the building trades (masons, plumbers, electricians, etc.) and teaches them rope access techniques. The department is led by Anna Marras, No. 2 in the company and the second largest shareholder with 15% of the capital (she holds 20% of Ricardo Iovino, the holding company that owns 74.1% of EDAC). Marras has been with EDAC since 2007 and has more than 20 years of experience in training. This is one of the key factors that set EDAC apart.
- Operational teams that work from local bases, with area managers supervising a sales manager and an operations manager who in turn oversee multiple branches. Each sales manager has a team of between one and three technical sales reps who handle business development, the preparation of quotes, the signature of contracts and customer satisfaction follow-up. Operations managers have between one and six teams of rope technicians operating in tandem. As of end-June 2022, EDAC had 80 local offices in Italy (+30 franchises), eight in France and two in Spain, employing 1,070 rope access technicians out of a total headcount of 1,468.

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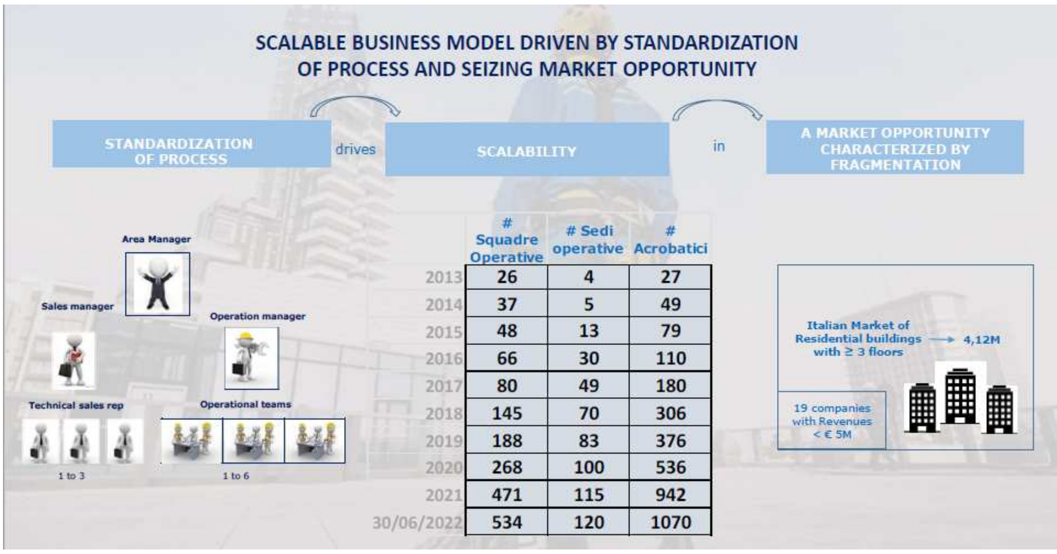
EDAC's business model



	# Squadre Operative	# Sedi operative	# Acrobatici
2013	26	4	27
2014	37	5	49
2015	48	13	79
2016	66	30	110
2017	80	49	180
2018	145	70	306
2019	188	83	376
2020	268	100	536
2021	471	115	942
30/06/2022	534	120	1070

Source : EDAC

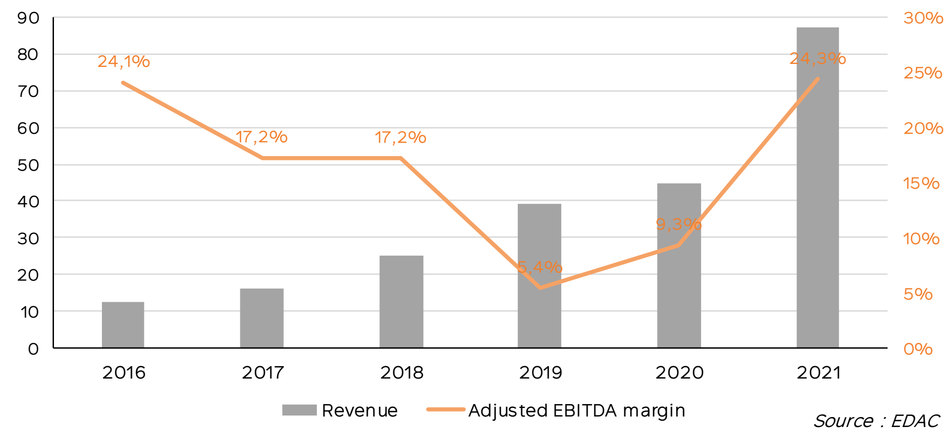
2– 2022 shaping up to be another exceptional year thanks to the Façade Bonus

2.1 Overview of 2021 results

It should be recalled that EDAC posted exceptionally good results in 2021, after delivering double-digit growth in 2020 thanks to a sharp rebound in H2 of that year. The 2021 earnings were buoyed by an improved post-COVID business climate that was turbocharged by the "Façade Bonus" (90% tax credit on façade renovation work) in Italy. Revenue ended the year up 95% while adjusted EBITDA margin expanded by 15 pts to 24.3% and FCF IS standard, after WCR) reached €14.8m (vs. -€5m in 2020).

It is fair to say that the company's growth trajectory since 2016 has been impressive: over the period, revenue rose from €12m to €87m, with no significant contributions from the companies acquired (the combined scope effect of the acquisitions of ETAIR in France and Access Vertical in Spain was less than €4m). Margins have also been remarkable: even after the company stepped up its investments in 2019-20 to support its rapid growth, it posted record profitability in 2021. This growth was fueled by an increase in the number of direct branches from four in 2013 to 90 at end-June 2022, the goal being to achieve full coverage of Italy (80 direct branches + 30 operating as franchises) and initiate European expansion (eight branches in France including Monaco and two in Spain).

Trend in sales and adjusted EBITDA margin since 2016



Source : EDAC

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2.2 Truly outstanding H1 22 results

The monthly business updates issued in the first half of 2022 (revenue and order intake) suggested that the H1 22 results would be in line with 2021, thanks to the extension of the Façade Bonus through the end of 2022, albeit with a reduced tax credit of 60% (vs. 90% in 2021).

This was indeed the case, and the H1 earnings reported in October came in well ahead of our estimates. Revenue for the period was €67.4m (+85%), whereas we were looking for €66.8m, and reported EBITDA reached €21.8m (+213%), beating our €16.7m estimate. Reported EBITDA margin was 32.1% (+13.1pts) vs. our 25% estimate, and net attributable income rose ten-fold to €10.7m vs. our €9.7m estimate.

In terms of business activity, the main takeaways from H1 were:

- Most of the growth was driven by the rope access business in Italy. Revenue for this activity (not counting franchises) surged 79% to €58.9m, vs. our €60m estimate. While the expansion of the branch network helped (+19% with 80 branches in Italy vs. 67 at end-June 2021), the main engine was sales momentum at the branches: revenue per branch jumped 53% to €1.5m on an annualized basis, allowing EDAC to optimize its fixed cost structure and improve its profitability (see below).
- Business in France began to pick up at last, with H1 22 revenue rising 41% to €2.5m, vs. our €2.4m estimate. Bringing ETAIR up to standard and restructuring its assets following the 2019 acquisition took longer than anticipated, but the business truly has good momentum now. The number of branches in France was unchanged at eight year-on-year, meaning growth was driven by an increase in revenue per branch, which rose 40% to €0.6m. Based on the metrics in Italy (revenue per branch of €1.5m), France still holds considerable growth potential, especially as the previous pace of branch openings could resume.
- The contribution from the Spanish business, acquired in H2 21, remained marginal with H1 22 revenue of €0.45m vs. our €0.42m estimate. Like in France, EDAC is in the process of restructuring the business, reorganizing the teams and setting up a training school.
- EDAC has been developing Energy Acrobatica 110, its energy renovation business, since H2 21 and it seems to be gathering good momentum with H1 22 revenue reaching €1.4m (vs. our €1.0m estimate), a 100% increase from H2 21 (€0.7m). While its contribution remains marginal for now, that entity is destined to become a significant growth driver for EDAC (see part 3).

H1 22 results : actuals vs IS estimates

in €m, 12/31	H1 2021	H1 2022		
	actual	actual	IS estimates	Diff.
Net Revenue*	36,5	67,4	66,8	+1%
change	*+107%*	*+85%*	*+83%*	
Adjusted EBITDA	4,5	21,7	16,7	+30%
Adjusted EBITDA margin	12,4%	32,2%	25,1%	
Depreciation	-0,8	-0,5	-1,0	
Adjusted EBITA	3,8	21,2	15,8	+34%
Adjusted EBITA margin	10,4%	31,5%	23,6%	
Adjusted Net Income	2,5	11,8	10,5	+12%
change	+7%	+382%	+329%	

Source : EDAC, IS estimates

When it comes to profitability, there is one point to bear in mind regarding the recognition of costs associated with the Façade Bonus. In H1 22, the company recorded €4.1m of expenses related to the Façade Bonus, but they corresponded to costs associated with work done in 2021, not H1 22. To ensure that we are analyzing the economic profitability of business generated in H1 2022, we have left these costs under financial expenses, taking care to include them in our valuation. On this basis, adjusted

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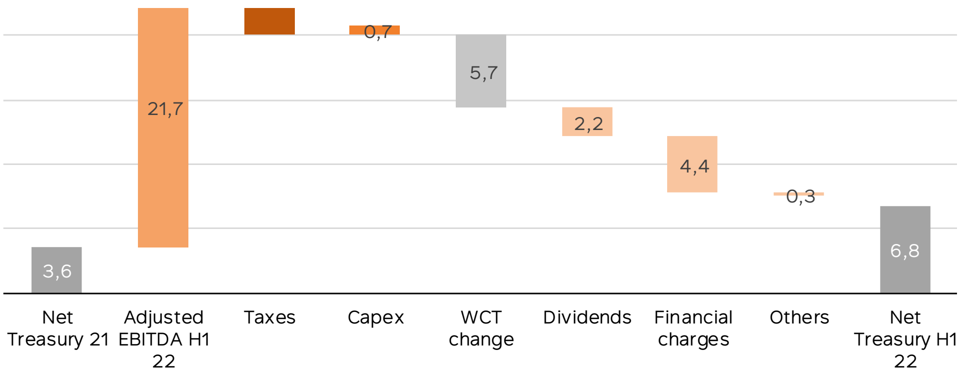
EBITDA margin for H1 22 reached 32.2%, well above our estimate (25.1%), reflecting just how strong momentum was over the period. This level of profitability is impressive relative to EDAC's historic performances, its normative profitability as estimated by management until now (15%), and especially the fact that this kind of hyper business growth usually generates additional costs. We see these results as a testament to the skill with which management has standardized the company's processes. Adjusted net income, factoring in the €4.1m of financial expenses, came in at €11.8m (4.8x).

2.3 FCF generation was solid despite the impact of WCR

FCF from operations, applying IS standards, reached €6.0m in H1 22, vs. our €7.5m estimate. Adjusted EBITDA (€21.7m) was depressed by taxes (-€5.1m), the change in WCR (-€5.6m vs. -€3.5m estimate) and financial expenses (€4.6m of which €4.1m for costs associated with the Façade Bonus in 2021). Factoring in the payment of dividends (-€2.5m) and miscellaneous expenses, net cash ended the first half €3.2m higher, at €6.8m, vs. our €8.4m estimate.

Change in EDAC's net cash position in H1 22



Source : Ediliziacrobatica

Even though it introduced a dividend policy last year that costs it around €2m a year, EDAC's financial situation has greatly improved in the past two years, moving from a net debt position of €7.7m at the end of 2020 to a €6.8m net cash position at end-June 2022. There will be many opportunities for management to fund the company's continued development by tapping into this war chest, which is likely to continue to grow in the near term, at least in H2 22, and possibly into 2023, as WCR normalizes.

2.4 No sign of growth slowing in the early months of H2 22

EDAC reported "revenue generated by the company" for Q3 22 on November 7. This figure differs slightly from consolidated revenue, but still reflects the overall business trend. Though the basis of comparison was demanding and seasonal effects were unfavorable, growth remained robust in Q3, which we see as further proof that 2022 will be another exceptional year.

Revenue generated by the company ended Q3 22 at €37m (+35%), bringing the total for the first nine months to €111.4m (+74%). In Italy, revenue generated by the company came in at €35.5m (+33%), buoyed by business acceleration at the energy renovation activity (€2.3m in Q3 vs. €1.4m in H1 22) together with continued robust growth for rope access work (+20%). Revenue generated by the company in France rose by 85% to €1.2m, while the contribution from the Spanish entity, which is being restructured, remained marginal at €0.3m.

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3 –Growth drivers will help offset the elimination of the Façade Bonus in 2023

3.1 The Façade Bonus tax incentive will be phased out at the end of 2022

There was uncertainty for a time about whether the Façade Bonus tax credit would extend into 2023, but the new Giorgia Meloni government ultimately decided to phase it out at the end of 2022.

EDAC will thus need to learn to live without a scheme that has bolstered its revenue in Italy for the past two years. Management expects the phase-out to have some impact, without erasing all the gains made thanks to the incentive. The Façade Bonus gave the public a chance to discover rope access work in general and EDAC in particular. It now works with more than 10k building management companies (vs. 2-3k before COVID) each managing an average of 40 buildings. Its customer base has thus expanded considerably, and management intends to tap into this base to offset the revenue that will be lost due to the phase-out of the Façade Bonus. While it does expect revenue per job to contract, it also sees the number of jobs performed rising substantially, partially offsetting the negative impact. The expansion of the network of direct branches in Italy (the target is to have 100 by 2024 vs. 77 at end-2021) should also soften the blow. Lastly, the tax incentive will likely continue to boost revenue into H1 2023, further limiting the sales contraction.

Bearing these factors in mind, as well as management's scenario for the coming years, we are cautiously projecting revenue declines of 15% in 2023 and 10% in 2024, which would put 2024 revenue at €87m (excluding franchises). This works out to revenue per branch of €0.87m, about halfway between the results for 2020 (€0.67m) and 2021 (€1.00m), but 40% below 2022e.

3.2 Energy renovation gathering real momentum

While the Façade Bonus will not be extended, EDAC plans to take advantage of another tax incentive in Italy, Superbonus 110%, which applies to energy renovation work. Introduced in 2020, this scheme was originally intended to remain in place only until mid-2022, but it has been extended through 2025, though the tax credit will decrease over time: 110% for work contracted through December 31 2023, 70% for contracts signed in 2024 and 65% for commitments made in 2025. The Meloni government is weighing whether to revise the scheme, either offering a flat bonus of about 80% or making the deduction dependent on the type of property or the household's income. In any event, Superbonus 110% seems to be here to stay, reflecting the need to improve energy efficiency in Italian homes and avoid destabilizing the construction industry at a time when the economy is softening.

To address this market, in H2 2021, EDAC set up a new wholly owned entity called Energy Acrobatica 110 (EA 110). This new business spent most of the year 2021 creating its offering, so its revenue contribution was only €0.6m. It gained considerable momentum in H1 22, posting revenue of €1.4m, and we should see a much higher figure for H2 2022 since revenue already reached €2.3m in Q3. This activity offers much more development potential than rope work, and there will likely be no shortage of demand. Rather, the challenges will be EA 110's ability to recruit sufficient technicians and the capacity of banks to fund these schemes. Management's targets are much more optimistic that ours: our model factors in revenue contributions of €6/20/40m in 2022-24e.

3.3 France picking up steam, Spain to catch up over the MT

French company ETAIR was acquired in 2019, and it has taken time to restructure its assets and bring them up to EDAC's standards. EDAC also had to learn the specifics of the French market, which is why revenue barely advanced between 2019 (€3.3m) and 2021 (€3.4m). The revenue figures for H1 22 (+41% to €2.5m) and Q3 22 (+71% to

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€1.1m) suggest that EDAC is now on the other side of the learning curve and will be able to replicate the success it has enjoyed in Italy in France. Our model therefore factors in revenue of €6m/9.5m/14m in 2022-24, lifting the French business's share of total revenue to 10% in 2024e.

We expect Spain to continue to contribute only modestly in the near term, with revenue of €1.0m in 2022 and €2.0m in 2023. By our estimates, sales will not take off in a meaningful way until 2024, when we expect revenue to reach €5m.

Over time, we see no reason why these two markets would not catch up with Italy and contribute revenue of about €100m. Given its savoir-faire and financial resources, we believe EDAC will be able to capitalize on strong growth momentum in the rope access market, potentially relying on M&A to accelerate its expansion.

3.4 Estimates for 2022-24 revised sharply higher, especially for 2022

We have hiked our estimates for 2022, 2023 and 2024, and particularly 2022, moving our adjusted EBITDA margin estimate for that year up by 54%. These upgrades reflect i) the excellent H1 22 performances, and ii) our much more optimistic scenario for H2 22, which we now expect to be in line with H1, given the Q3 performances as well as the company's ability to recruit staff to keep up with demand and the strong momentum at EA 110 and the French business.

EDAC : IS estimates adjustments

in €m, to 31/12	2021	2022e			2023e			2024e		
	actual	New	Prev	Change	New	Prev	Change	New	Prev	Change
Net Revenue*	86,9	132,6	111,7	+19%	134,3	126,2	+6%	157,5	139,8	+13%
change	*+95%*	*+52%*	*+28%*		*+1%*	*+13%*		*+17%*	*+11%*	
Adjusted EBITDA	21,2	34,8	22,6	+54%	28,9	25,3	+14%	33,4	28,1	+19%
Adjusted EBITDA margin	24,3%	26,3%	20,2%		21,5%	20,0%		21,2%	20,1%	
Depreciation	-1,6	-1,4	-1,9		-2,1	-2,1		-2,3	-2,3	
Adjusted EBITA	19,6	33,4	20,7	+62%	26,8	23,2	+15%	31,1	25,8	+21%
Adjusted EBITA margin	22,5%	25,2%	18,5%		19,9%	18,4%		19,7%	18,5%	
Adjusted Net Income	12,6	19,0	9,6	+98%	18,1	11,3	+60%	21,1	17,4	+22%
change	+569%	+51%	-24%		-5%	+18%		+17%	+54%	

Source : EDAC, IS estimates

IS estimates in detail

in €m, to 31/12	2017	2018	2019	2020	2021	2022e	2023e	2024e
Direct branches Italy	27	39	45	59	77	85	93	100
change	+80%	+44%	+15%	+31%	+31%	+10%	+9%	+8%
Direct branches France	0	0	5	8	8	9	14	19
change				+60%	+0%	+13%	+56%	+36%
Direct branches Spain	0	0	0	0	2	5	7	10
change								
Total direct branches	**27**	**39**	**50**	**67**	**87**	**99**	**114**	**129**
change	+80%	*+44%*	+28%	+34%	+30%	+14%	+15%	+13%
Franchising - Italy	**22**	**31**	**33**	**30**	**30**	**30**	**30**	**0**
change		***+41%***	***+6%***	***-9%***	***+0%***	***+0%***	***+0%***	***-100%***

in €m, to 31/12	2017	2018	2019	2020	2021	2022e	2023e	2024e
Italy revenue	14,8	22,9	33,1	39,2	77,3	114,0	96,9	92,1
change	+30%	+55%	+45%	+18%	+97%	+48%	-15%	-5%
Revenue/branches Italy	0,547	0,588	0,737	0,665	1,004	1,341	1,042	0,921
France revenue	0,0	0,0	3,3	3,1	3,4	6,0	9,5	14,3
change				-4%	+9%	+75%	+60%	+50%
Revenue/branches France			0,654	0,392	0,425	0,661	0,680	0,752
Spain revenue	0	0	0	0	0,22	1,00	2,00	5,00
change						+350%	+100%	+150%
Revenue/branches Spain						0,200	0,286	0,500
Franchising - Italy	1,5	2,1	2,8	2,3	5,3	5,6	5,9	6,2
Total revenue excl. EA 110	**16,3**	**25,0**	**39,2**	**44,7**	**86,2**	**126,6**	**114,3**	**117,5**
change		**+54%**	**+57%**	**+14%**	**+93%**	**+47%**	**-10%**	**+3%**
EA 110	**0,0**	**0,0**	**0,0**	**0,0**	**0,7**	**6,0**	**20,0**	**40,0**
change					**ns**	**ns**	**+233%**	**+100%**
Total revenue	**16,3**	**25,0**	**39,2**	**44,7**	**86,9**	**132,6**	**134,3**	**157,5**
lfl change	*+31%*	*+54%*	*+44%*	*+14%*	*+94%*	*+50%*	*+1%*	*+17%*
scope effect	*+0%*	*+0%*	*+13%*	*+0%*	*+0%*	*+2%*	*+0%*	*+0%*
change	*+31%*	*+54%*	*+57%*	*+14%*	*+95%*	*+52%*	*+1%*	*+17%*

Source : EDAC, IS estimates

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Our upgrades to 2023-24 are more modest (+6-13% for revenue, +14-19% for EBITDA), based on the assumption that demand for rope access work in Italy will gradually weaken once the Façade Bonus scheme is phased out and taking a cautious approach to margin growth with adjusted EBITDA margin landing at around 20%, whereas we now expect it to exceed 25% in FY 2022. As shown in the table below, even with demand for rope access work in Italy losing steam, the ramp-up of EA 110 and the French business should allow EDAC to stabilize its revenue at close to the high levels reached in 2022 next year and then return to growth in 2024 (+14%). Recovery at the French and Spanish entities, as well as at EA 110 (all three were loss-making in H1 22), will also help drive margin expansion, though the impact will likely be fairly limited in the near term.

4 - Valuation integrating a collapse in results – BUY, TP €26 (vs €24)

4.1 DCF: TP raised to €26 (from €24) despite higher WACC

As we have said before, we believe the DCF approach is the only valuation method suitable for EDAC. A peer comparison would not be meaningful since no other companies specialize in rope access work. The listed companies operating in the building renovation and/or facilities management industries post significantly lower growth rates and margins than EDAC, such that a peer comparison would not draw out the Italian firm's specific attributes or its MT/LT profile.

The main changes we have made to our DCF model are as follows:

- Upward revision of our revenue growth and margin estimates for 2022-24. Looking further ahead, we have cautiously assumed that revenue growth would gradually level off at around +1.5% with normative adjusted EBITDA margin settling at just 17%, well below the levels seen in 2021-24 (>20%), as the industry becomes more competitive.
- A nine-month shift in our model run.
- WACC revised up to 12.22% (from 9.29% previously), to take on board the rise in interest rates and the equity risk premium since our last update in the spring of 2022.

All of this lifts our DCF-based target price to €26 (from €24), even factoring in the very unfavorable impact of the higher WACC (-€10/share).

Detailed FCF estimates

in €m, 12/31	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Revenues	**39,2**	**44,7**	**86,9**	132,6	134,3	157,5	181,2	204,3	225,8	244,5	259,2	268,9	272,9
change	*+57%*	*+14%*	*+95%*	*+52%*	*+1%*	*+17%*	*+15%*	*+13%*	*+11%*	*+8%*	*+6%*	*+4%*	*+1,5%*
Adjusted EBITDA	2,1	4,2	21,2	34,8	28,9	33,4	36,8	39,7	41,9	43,2	43,5	42,7	40,9
Adj. EBITDA Margin	*5,4%*	*9,3%*	*24,3%*	*26,3%*	*21,5%*	*21,2%*	*20,3%*	*19,4%*	*18,5%*	*17,7%*	*16,8%*	*15,9%*	*15,0%*
Capex	-1,0	-0,9	-1,5	-2,2	-2,3	-2,6	-2,9	-3,3	-3,6	-3,8	-4,0	-4,1	-4,1
Capex in	*-2,5%*	*-2,0%*	*-1,8%*	*-1,7%*	*-1,7%*	*-1,6%*	*-1,6%*	*-1,6%*	*-1,6%*	*-1,6%*	*-1,5%*	*-1,5%*	*-1,5%*
Depreciation	-0,8	-1,2	-1,6	-1,4	-2,1	-2,3	-2,7	-3,0	-3,3	-3,6	-3,9	-4,0	-4,1
% revenues	*-2,2%*	*-2,6%*	*-1,8%*	*-1,1%*	*-1,6%*	*-1,5%*	*-1,5%*	*-1,5%*	*-1,5%*	*-1,5%*	*-1,5%*	*-1,5%*	*-1,5%*
WCR	10,2	16,6	15,6	22,9	21,1	22,2	25,8	29,3	32,7	35,7	38,2	40,0	40,9
WCT / Revenues (%)	*26,0%*	*37,1%*	*17,9%*	*17,3%*	*15,7%*	*14,1%*	*14,2%*	*14,4%*	*14,5%*	*14,6%*	*14,7%*	*14,9%*	*15,0%*
Tax Rate	-30,0%	-30,0%	-30,0%	-30,0%	-30,0%	-30,0%	-30,0%	-30,0%	-30,0%	-30,0%	-30,0%	-30,0%	-30,0%
Synthesis													
EBITDA	2,1	4,2	21,2	34,8	28,9	33,4	36,8	39,7	41,9	43,2	43,5	42,7	40,9
Tax	-0,4	-0,9	-5,9	-10,0	-8,0	-9,3	-10,2	-11,0	-11,6	-11,9	-11,9	-11,6	-11,1
Capex	-1,0	-0,9	-1,5	-2,2	-2,3	-2,6	-2,9	-3,3	-3,6	-3,8	-4,0	-4,1	-4,1
WCR change	-4,1	-6,4	1,0	-7,4	1,8	-1,1	-3,6	-3,6	-3,4	-3,0	-2,5	-1,8	-0,9
Operating FCF	**-3,4**	**-4,0**	**14,8**	**15,2**	**20,3**	**20,4**	**20,1**	**21,9**	**23,4**	**24,5**	**25,1**	**25,2**	**24,8**
change	ns	ns	ns	ns	ns	+0,2%	-1,5%	+9,0%	+6,9%	+4,7%	+2,6%	+0,5%	-1,6%
Discounting adj.				0,00	1,00	2,00	3,00	4,00	5,00	6,00	7,00	8,00	9,00
Discounted FCF				**15,2**	**18,1**	**16,2**	**14,2**	**13,8**	**13,1**	**12,3**	**11,2**	**10,0**	**8,8**

Source : EDAC, IS estimates

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Sensibility to LT EBITDA margin and WACC

Long term EBITDA margin	WACC 10,7%	11,2%	11,7%	12,2%	12,7%	13,2%	13,7%
+10,0%	22,7	21,7	20,8	20,0	19,3	18,6	18,0
+12,5%	26,3	25,0	23,9	22,9	22,0	21,1	20,4
+15,0%	29,9	28,4	27,0	**25,8**	24,7	23,7	22,7
+17,5%	33,5	31,7	30,1	28,7	27,4	26,2	25,1
+20,0%	37,1	35,1	33,2	31,6	30,1	28,8	27,5

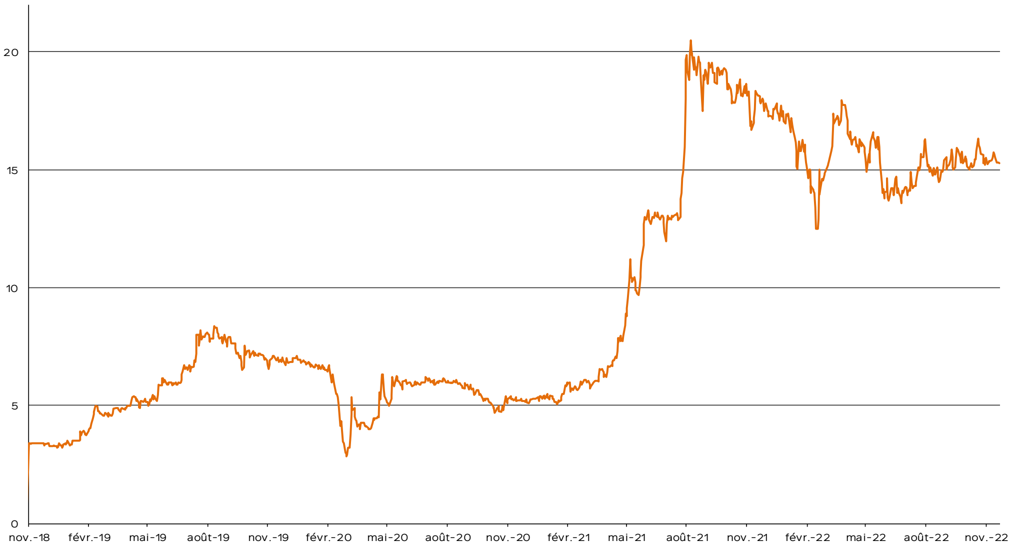
Source : estimations IS

4.2 The stock is down over the past year despite the excellent earnings momentum

Since its IPO late in 2018 at €3.33, the stock has had a very impressive run, gaining 371%! Driving factors included the Façade Bonus, which bolstered revenue starting in 2021 and helped lift the share price from €5 at the end of 2020 to more than €20 in July 2021. The stock has lost ground since then, despite the one-year extension of the Façade Bonus tax scheme, settling at around €15.

This drop in the stock's value is not a reflection of EDAC's current financial performances, but rather of the uncertainty surrounding its outlook post 2022, when the Façade Bonus tax incentive will no longer be available in Italy. Most stocks that got a boost from COVID have seen similar pullbacks, including firms in the e-commerce, video games and medical diagnostics sectors. EDAC's ability to continue to deliver solid financial performances in 2023 and beyond will determine where the stock goes next. Given the factors working in the company's favor (expansion of the direct branch network, ramp-up of the French business and energy renovation entity), we expect its earnings to be quite resilient, which should reassure investors and put the stock back on an upward trajectory.

Stock price trend since the IPO



Source : Factset Estimates

4.3 Still a BUY, TP raised to €26

At the current price, EDAC's valuation multiples are particularly low (2022-24e P/Es of 6.6x-7.0x-5.9x, EV/EBITDA of 3.4x-3.6x-2.6x and 2022e FCF yield of 19.2%!). In our view, these valuation multiples reflect investor concerns that earnings could contract sharply starting in 2023, once the Façade Bonus is phased out in Italy. We continue to believe that EDAC has several levers available to offset the negative impact of this

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tax incentive's elimination. It should also be noted that our estimates are much more conservative than the company's own forecasts, bearing in mind that, to its great credit, management has met every target it has set since the IPO.

In conclusion, assuming that the stock's clear undervaluation will provide significant price support, we remain BUYERS of EDAC with a new TP of €26 (vs. 24€) that leaves upside potential of 69%!

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INVESTMENT CASE

Atypical actor in the construction market, EDAC is an Italian group only exercising the trade of rope access for renovations and maintenance of buildings of more than 3 floors. Relatively recent, this technique has many advantages over scaffolding work. In a competitive landscape limited to SMEs and artisans, EDAC has chosen to industrialize its approach, particularly in the field of training. Already leader of the Italian market still partially penetrated, this strategy, completed by acquisitions of local actors, must enable it to conquer new European markets.

SWOT ANALYSIS

STRENGTHS

- Training center
- Structuring of the services and the model
- European leader

THREATS

- Very long period for repayment
- Very high exposure to the Italian market

OPPORTUNITIES

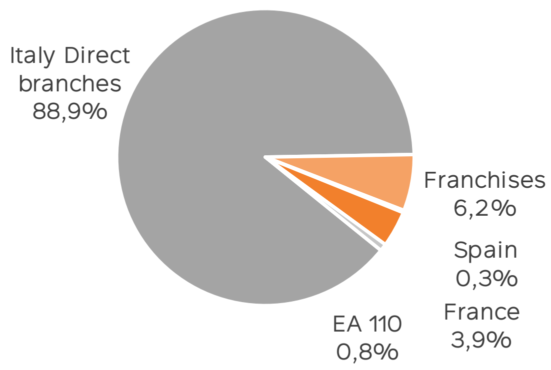
- Fragmentation of the market
- Competition limited to SMEs/artisans

MENACES

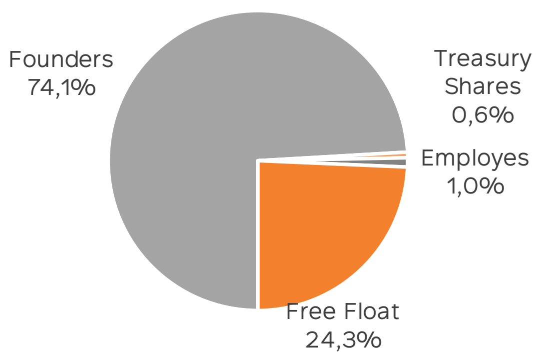
- Arrival on the market of giant construction companies
- Difficulties to replicate the model outside Italy

ADDITIONAL INFORMATION

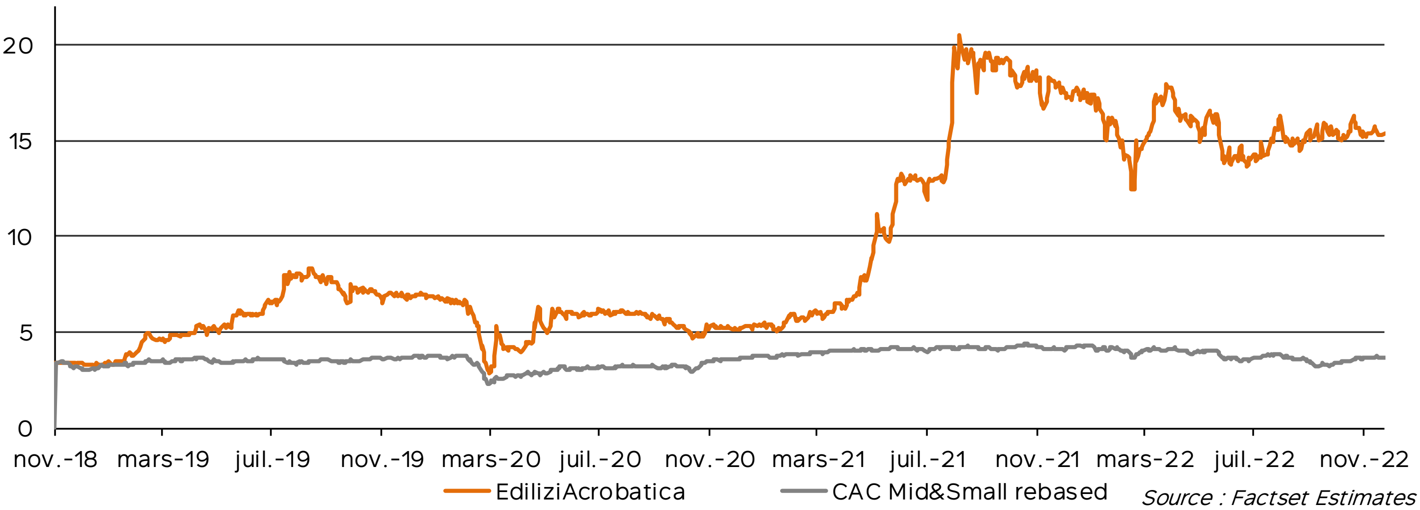
Sales Breakdown 2021



Shareholders



SHARE PRICE CHANGE SINCE IPO



Source : Factset Estimates

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Our analyst ratings are dependent on the expected absolute performance of the stock on a 6- to 12-month horizon. They are based on the company’s risk profile and the target price set by the analyst, which takes into account exogenous factors related to the market environment that may vary considerably. The Invest Securities analysis office sets target prices based on a multi-criteria fundamental analysis, including, but not limited to, discounted cash flows, comparisons based on peer companies or transaction multiples, sum-of-the-parts value, restated net asset value, discounted dividends.

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- NEUTRAL: Between -10% downside and +10% upside potential (the maximum required may be revised upward depending on the company’s risk profile)
- SELL: Downside potential of more than 10%
- TENDER or DO NOT TENDER: Recommendations used when a public offer has been made for the issuer (takeover bid, public exchange offer, squeeze-out, etc.)
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12-MONTH HISTORY OF OPINION

The table below reflects the history of price recommendation and target changes made by the financial analysis office of Invest Securities over the past 12 months.

Company Name	Main Author	Release Date	Rating	Target Price	Potential
EDAC	Maxime Dubreil	10-mai.-22	ACHAT	24,0	+53%

DETECTION OF CONFLICTS OF INTEREST

	EDAC
Invest Securities was lead manager or co-lead manager in a public offer concerning the financial instruments of this issuer during the last twelve months.	No
Invest Securities has signed a liquidity contract with the issuer.	Yes
Invest Securities and the issuer have signed a research service agreement.	Yes
Invest Securities and the issuer have signed a Listing Sponsor agreement.	Yes
Invest Securities has been remunerated by this issuer in exchange for the provision of other investment services during the last twelve months (RTO, Execution on behalf of third parties, advice, placement, underwriting).	No
This document was sent to the issuer prior to its publication. This rereading did not lead the analyst to modify the valuation.	Yes
This document was sent to the issuer for review prior to its publication. This rereading led the analyst to modify the valuation.	No
The financial analyst has an interest in the capital of the issuer.	No
The financial analyst acquired equity securities of the issuer prior to the public offering transaction.	No
The financial analyst receives remuneration directly linked to the transaction or to an investment service provided by Invest Securities.	No
An executive officer of Invest Securities is in a conflict of interest with the issuer and was given access to this document prior to its completion.	No
Invest Securities or the All Invest group owns or controls 5% or more of the share capital issued by the issuer.	No
Invest Securities or the All Invest group holds, on a temporary basis, a net long position of more than 0.5% of the issuer's capital.	No
Invest Securities or the All Invest group holds, on a temporary basis, a net short position of more than 0.5% of the issuer's capital.	No
The issuer owns or controls 5% or more of the capital of Invest Securities or the All Invest group.	No

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